New America Foundation

Policy Brief

Work Sharing

Effective in Keeping Workers Attached to the Labor Market

Shayne Henry, New America Foundation

June 2011

Three years into the Great Recession, unemployment continues to hover over 9%. 14 million Americans are out of work; nearly 4 million are still drawing unemployment benefits that cost cash-strapped states billions of dollars.[1] Although the worst appears to be over, the economic recovery appears to have stalled as the nation continues to grapple with the reality of a workforce that is plentiful but jobs that are not. In an effort to provide support for the growing number of long-term unemployed, the federal government has even extended unemployment benefits to 99 weeks. Trying to promote job creation, the federal government has spent well over $800 billion in direct fiscal stimulus and the Federal Reserve has engaged in two rounds of unconventional monetary policy maneuvers in quantitative easing. Not for a lack of effort, these policies seem to have reached the extent of their effectiveness.

Extended periods of unemployment have long-term negative consequences for individuals and families. Experiences of unemployment increase the likelihood of future periods of unemployment and result in lower life-time earnings through a low-pay/no-pay cycle, wherein repeated periods of unemployment are followed by low-paying and unstable jobs.[2] This cycle results in higher incidences of poverty, social exclusion, psychological and physical health impacts, and family and marital problems.[3] Most relevant to the most recent unemployment crisis, in which 45% of the unemployed have been without work for 27 weeks or longer, is the fact that long durations of unemployment lower the probability of re-employment.[4] The reason that periods of unemployment lead to this long-term "scarring" is that temporary joblessness causes skill deterioration and decreases a worker's competitiveness in the labor market as other employed workers continue to accumulate skills and work experience. Further, workers who experience periods of unemployment are more likely to become "discouraged," and leave the labor force entirely, or become more heavily dependent upon state assistance.[5]

In order to mitigate the individual, and social, consequences of unemployment, some American economists and policy experts have suggested nationalizing a policy that already exists in a few American states and is widely popular in Europe: work sharing.

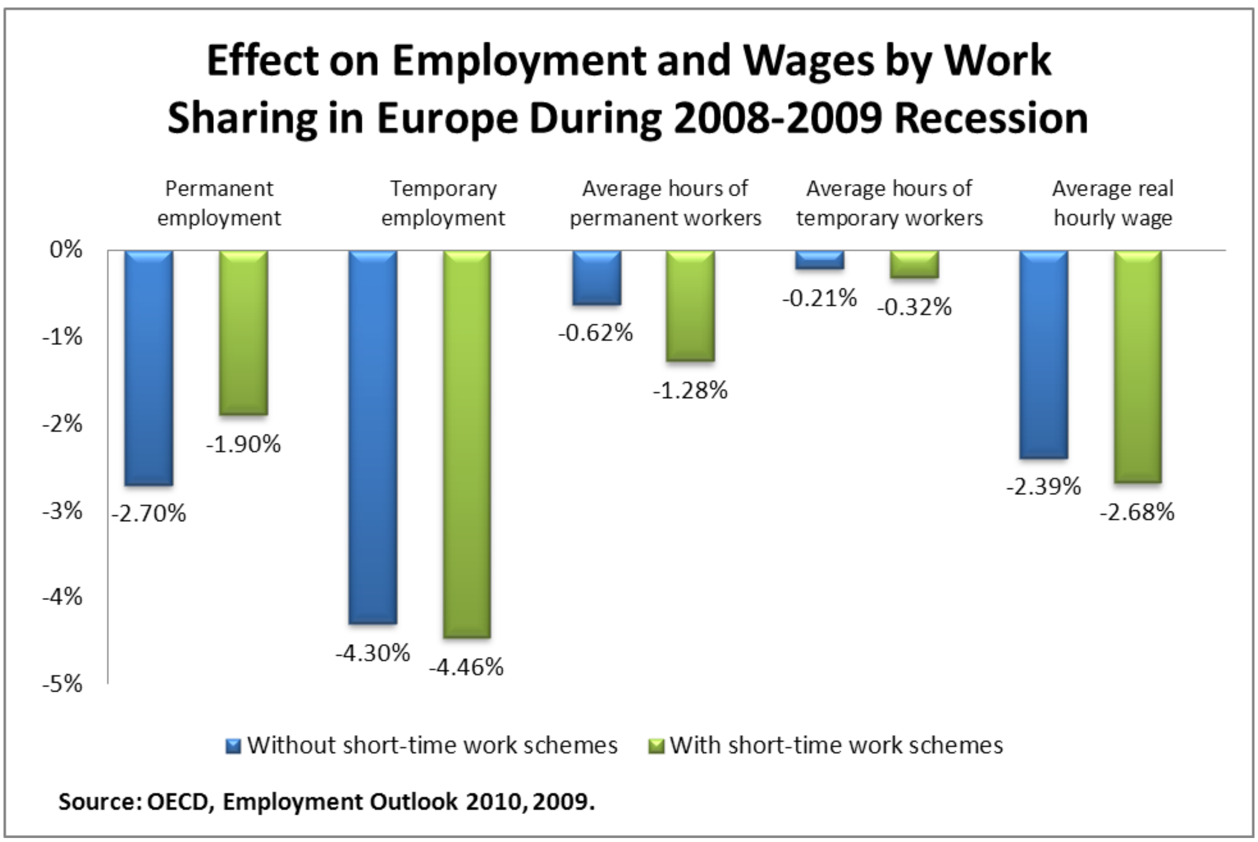
What is Work Sharing?

Work sharing, or short-time compensation as it is otherwise called, is a policy that can mitigate layoffs, keep more workers attached to the labor market, and help businesses remain solvent during periods of economic downturn. Under work sharing programs, firms are offered the option of avoiding layoffs and keeping workers on their payroll at reduced hours. In most existing models, if the employer cuts a worker's hours by 10 percent or more, the government will then pay a percentage of the employee's lost salary. The program is administered through the current unemployment insurance system—substituting unemployment compensation for short-time compensation and keeping workers attached to the labor force. Interestingly, work sharing enjoys outspoken proponents on both sides of the aisle, from Dean Baker at the Center for Economic and Policy Research to Kevin Hassett at the American Enterprise Institute.[6]

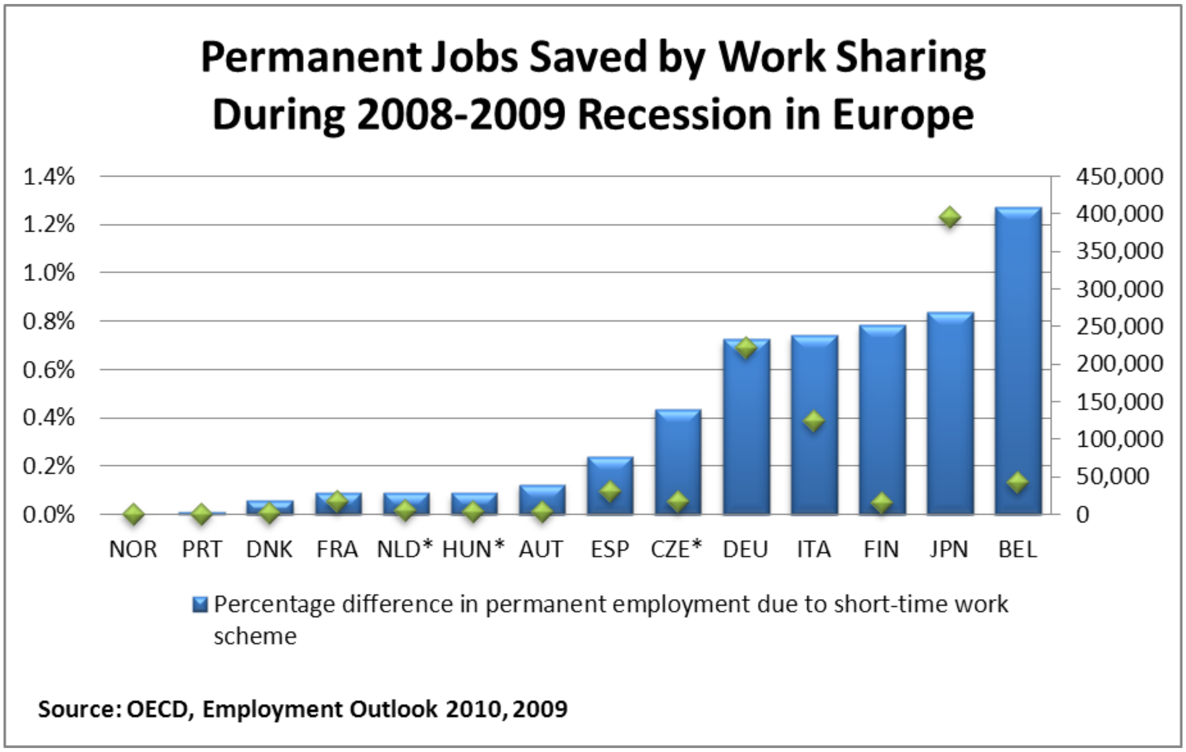
Perhaps the greatest benefit of a work sharing program is that it allows workers to remain attached to the labor force during an economic downturn. Work sharing programs can be more expensive than standard unemployment insurance and in some cases fails to maintain employment for many participating workers after the expiration of the program. But an appropriately designed work sharing policy can act as an automatic stabilizer during economic downturns and help to limit labor force detachment and the subsequent long term consequences. The benefit of this “smoothing” of the labor force is difficult to quantify but appears to be substantial in countries with work sharing programs.

Work Sharing Has Been Effective In Other Countries

Four recent studies stand out as the most comprehensive assessment of existing work sharing programs. The first, a 2010 OECD Employment Outlook report[7], finds that work sharing programs in Europe were effective in limiting permanent job losses during the 2008-2009 recession. While the benefits of the work sharing programs appear to be limited to workers with permanent contracts, as opposed to part-time or temporary laborers, they remain significant. And while work sharing programs resulted in temporarily lower wages, this small decrease in pay allowed millions to escape the life-long consequences of joblessness and labor force detachment.



The OECD found that countries with existing schemes had smaller reductions in permanent work than countries without them. Further, existing programs were more effective than programs that were created mid-recession. Germany, Japan, Belgium, Finland and Italy had particularly large employment impacts from their pre-existing work sharing programs. The chart below shows the proportional and absolute impact on permanent employment due to work sharing programs from the start of the crisis to Q3 2009. The countries with asterisks created their programs after the beginning of the crisis.



The second major study on international work sharing schemes comes from the European Commission. This report also finds that such programs have a positive, significant impact on sustained employment.[8] A third study, from the Institute for the Study of Labor, finds similar benefits for permanent workers and suggests that countries that do not have work sharing programs stand to benefit from the introduction of such policies.[9]

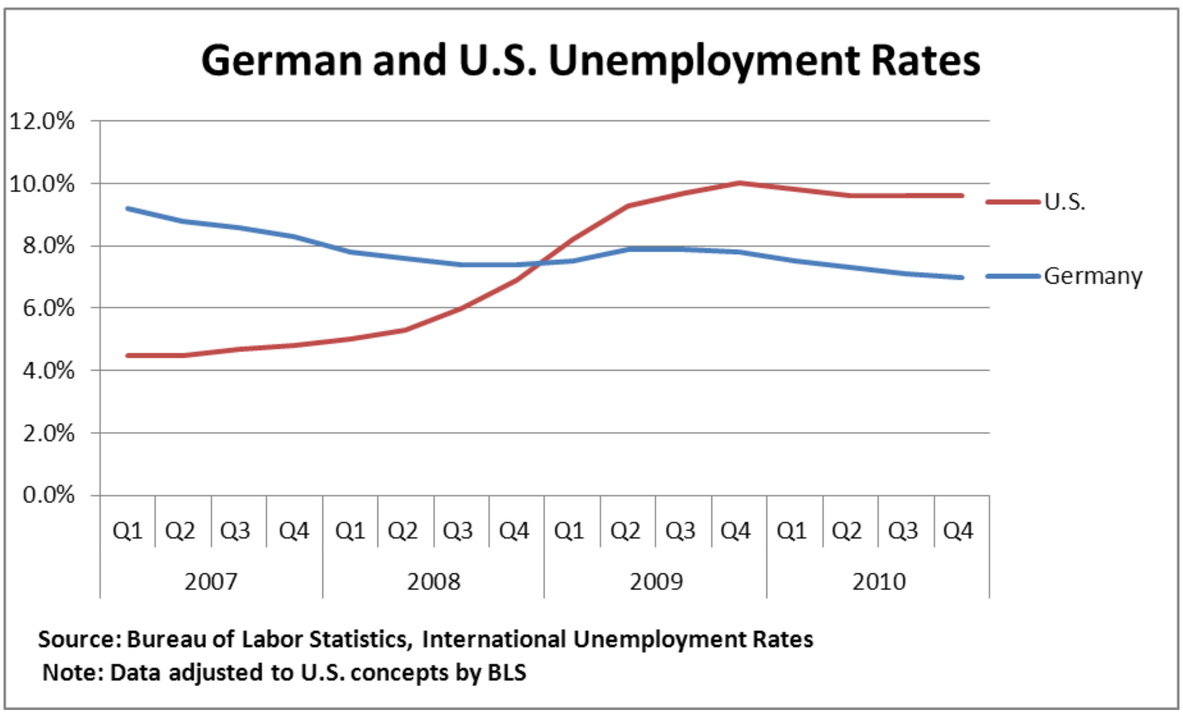
A fourth study by the European Foundation for the Improvement of Living and Working Conditions uses Eurstat data to look more closely at the composition of short-time participants during the recent economic crisis.[10] According to the Foundation's analysis, European participants are predominately male, aged between 30 and 54, work full-time, are employed in the manufacturing sector and have an educational attainment roughly equal to a high school diploma.

How Work Sharing Works

Existing programs generally follow a similar model for hour reduction and compensation, with some minor variations. Fifteen of the 25 countries with work sharing programs have minimum hour reductions, ranging from 40% in Norway to 10% or less in Austria, Germany, Switzerland and the Slovak Republic.[11] Six countries require a minimum proportion of workers at a firm to participate. In order to prevent temporary lay-offs, five countries have a maximum number of hour reductions, four require the creation of "recovery plans" in order for firms to participate, and six prohibit the dismissal of workers during or shortly after participation in work sharing programs. Four countries require workers to participate in training during their shortened hours, and five have job search requirements. Depending on the country, firms bear part or none of the direct cost, although they pay the full cost in Norway and Switzerland. On average, the allowed working-time reduction is 74%, with an average maximum duration of 15 months and an average minimum compensation rate of 71%.[12]

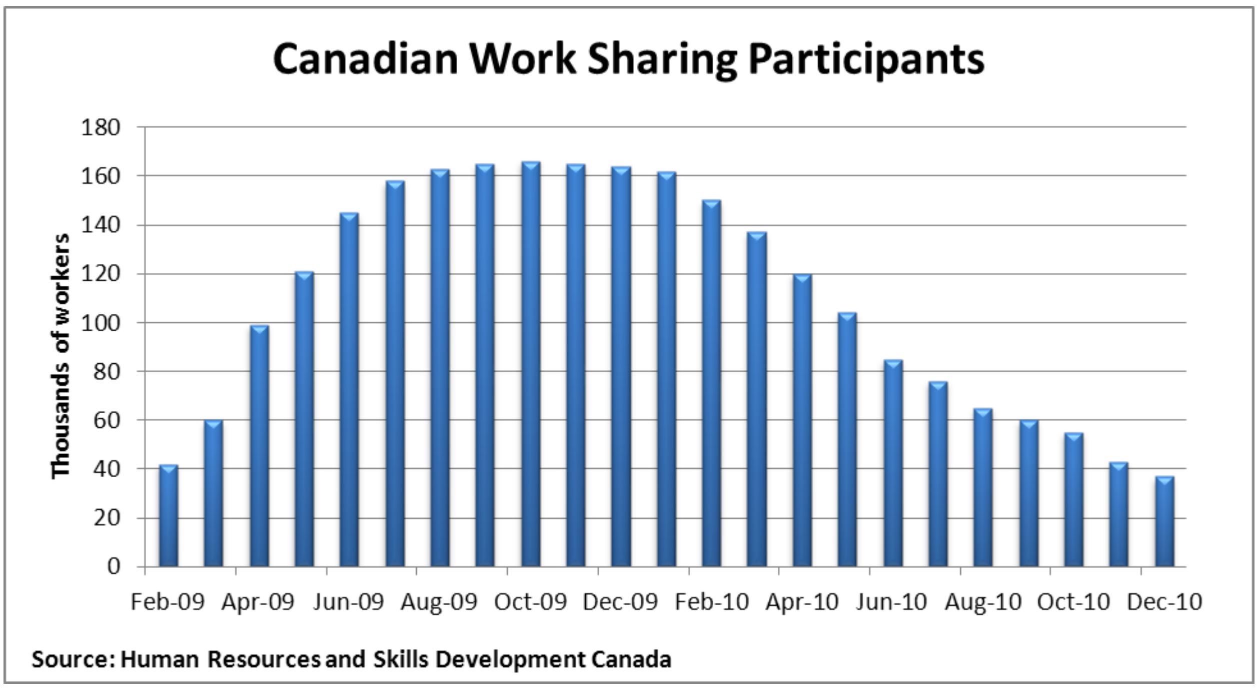
The German work sharing program, called 'Kurzarbeit' (literally 'short-time'), is perhaps the best known of the national work sharing programs. At the very least, it the largest. In 2009, the program included the participation of 64,000 firms and 1.5 million workers.[13] With 1.76% of workers in short-term employment, Germany's take-up of work sharing schemes is only surpassed by Estonia at 1.87% and Italy at 2.66%.[14] In order to qualify, workers must experience a 10 percent or higher decrease in work hours.[15] The federal government then pays 60% of the foregone wages for up to 24 months.

The program cost nearly five billion euros ($7 billion) in 2009. And it appears to have been effective. Despite experiencing a stronger downturn than the European Union and the United States, Germany's unemployment rate increased by only .4 percent in 2009, while the EU experienced a 1.9 percentage point increase and the United States suffered an increase of 3.1 percentage points. As a result of Germany's steep drop in GDP, the country should have lost 3.2 million jobs. Instead, employment has remained stable. This has been largely attributed to the work sharing program and other labor market supports.[16] The ILO credits Kurzarbeit with directly saving at least 432,000 jobs in 2008 and 2009 alone.



Canada also has a robust work sharing program, with over 160,000 workers participating each month in 2009.[17] A 2004 evaluation of the program included an assessment of the employment outcomes of participants. The study claims that three out of ten of the participants would have been otherwise laid off during the recessions of the early 1990s and the early 2000s if not for the work sharing agreement, saving approximately 10,000 jobs each year, and as many as 32,000 jobs in 1990-1991.[18] However, further analysis showed that, on average, nearly half of the workers from the 2004 study were let go 26 weeks after the termination of their work sharing agreement. Despite these eventual layoffs, the ability to remain employed for those six months makes the participants more competitive in finding other jobs once the economy recovered. And with an average hourly reduction of 29%, the participating workers still received approximately 87% of their normal earnings for those 26 weeks (comprised of 71% of their normal earnings coming from their employers and the remainder paid in work sharing benefits from the government). For those 30% of participants who would have been otherwise laid off, this is in contrast to an average wage replacement of only 46% from standard unemployment insurance, meaning that participating workers were able to more closely maintain their standard of living than if they had been laid off.

The program cost the Canadian government C$36.7 million each year. The report estimates that it costs C$11.2 million more per year than a standard unemployment program. The increased cost is largely a result of participating workers who were laid off after the expiration of the work sharing agreement and then drew unemployment benefits for the full legal duration. The Canadian case study provides an important note about the duration of work sharing programs. Since the onset of the Great Recession, Canada has extended the duration of the program several times, now allowing workers to participate for 52 weeks and firms to participate for 78. Since the beginning of the recession, the work sharing program has been credited as protecting more than 272,000 Canadian jobs.[19] Further, the program has operated as an automatic stabilizer in Canada, with participation numbers increasing as the crisis began and later decreasing as unemployment pressures started to dissipate.



In addition to protecting workers, another proposed benefit of work sharing is that it allows firms to remain solvent during and after economic downturns. Because firms are able to keep their employees, when demand returns to its previous level they do not have to incur the costs of hiring and training new workers. Also, they are able to lower operating costs while maintaining some flexibility in labor input, allowing them more control over costs and productivity during economic volatility.[20]

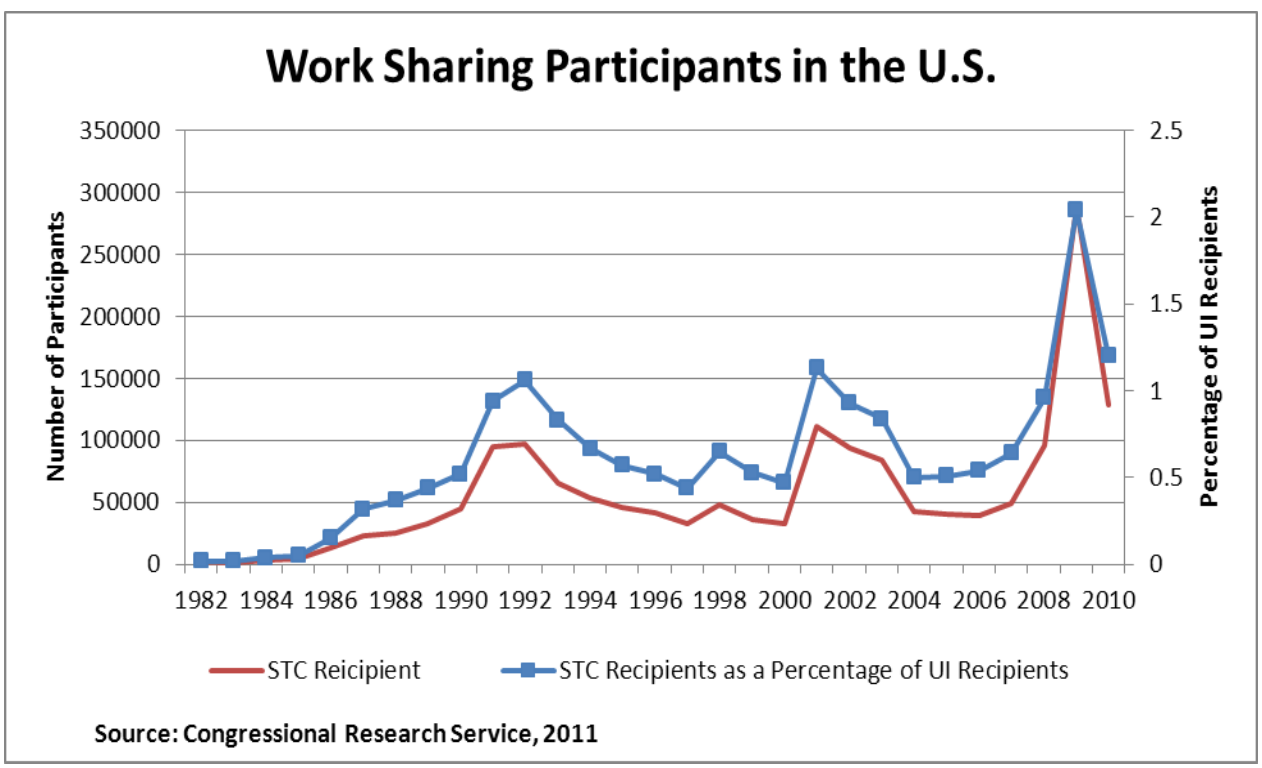
Proponents of work sharing contend that these benefits reduce firm exits during and after economic downturns. A prominent study of the French work sharing program seems to contradict this theory, finding that French firms which participated in work sharing programs were more likely to exit the market than firms which did not.[21] However, it appears that this conclusion is the result of selection bias, as participating firms are logically less financially healthy than those that do not participate.[22] Other studies support the proposition that work sharing programs help firms make labor adjustments and allow increased flexibility during economic downturns.[23]

Work Sharing Programs at the State Level in the U.S.

At present, 20 states operate work sharing programs. A study by the Congressional Research Service finds significant benefits for participating firms in these states, including reduced labor costs, sustained morale, lower recruiting and training costs for employers and the increased retention of highly skilled workers.[24]

Nevertheless, work sharing participation is small in the United States, amounting to 1%-2% of unemployment benefits paid annually across the United States. In 2010, only about 128,000 workers participated, less than one-tenth of one percent of all payroll employment. Rhode Island is the most extensive user of work sharing, with 16% of all state beneficiaries of unemployment benefits using work sharing in 2009. Rhode Island and Kansas are the only two states where participation exceeded 1% of payroll employment.[25]

These numbers, while low, are greatly elevated since the beginning of the Great Recession. During the first year of the recession alone, states saw take-up increases of more than 200% in many states.[26] The consistently low participation rate may be the result of several factors. Many workers are unaware of eligibility, and those that are may not be willing to participate because of existing programmatic disincentives. In most states, there is a dollar-for-dollar reduction in regular unemployment benefits for benefits accessed while participating in work sharing.[27] This trade off, between increasing the overall cost of the state unemployment program and attracting higher participation in work sharing programs is a difficult one for states to navigate. Additionally, many schemes currently entail the reduction of employment benefits in conjunction with the reduced hours—meaning, for example, that if a worker's hours are reduced by 10%, the employer contribution to health care premiums is also reduced by 10%. Addressing these disincentives would be crucial to creating a viable national work sharing program with a high rate of participation.



The United States Department of Labor oversees these programs as part of the federal-state unemployment program. However, the Department of Labor has not devoted much energy to expanding the program to additional states or firms.
Combining existing programs into one single federal program would not be an impossible task. The 20 states that operate work sharing programs employ very similar schemes, with only minor variations. All of the states require eligible workers to have their workweeks reduced by at least 10%, and they must be available to work during their normal workweek. Some workers are offered employer-sponsored training programs. Seven states have supplemental taxes for participating employers, in order to avoid forcing non-participating firms from shouldering the cost.

State	Required Work Reduction	Maximum Weeks Payable	Other Notes
AZ	10-40%	26 (w/ extensions)	Tax rate increases 1% if negative reserve ratio is less than 15%; 2% if the negative reserve ratio is 15%+
AR	10-40%	26	
CA	10%+	None	Plans not required to address fringe benefits
CT	20-40%	26 (w/ extensions)	
FL	10-40%	26	1% higher max. tax rate; other part-time employment affects payment
IA	20-50%	52	
KS	20-40%	26	Automatic exclusion of negative balance employers
LA	10%+	26	Plans are not required to address fringe benefits. Has authority in law but has not implemented program.
MD	10-50%	26	All benefits charged to employer regardless of base period charging rule
MA	10-60%	26	Employers with negative balances are charged as though they were reimbursers
MN	20-40%	52	Employees participating must work at least 20 hours per week
MO	20-40%	26	
NY	20-60%	20	
OR	20-40%	52	If employer's benefit ratio is greater than its tax rate, the employer must reimburse the excess at the end of each calendar quarter
RI	10-50%	52	All work sharing benefits charged to work sharing employer regardless of base period charging rule
TX	10-40%	52	
VT	20-50%	26	
WA	10-50%	52	Businesses with a tax rate of more than 5.4% are not eligible to participate.

Source: U.S. Department of Labor. Comparison of State Unemployment Insurance Laws. 2010.

Programs in the United States have faced high administrative costs. This is because the program affects a larger number of workers (as the reduction in hours is shared across a larger section of the workforce) than do standard layoffs. However, states have been successful in lowering costs by automating the system and integrating it with existing unemployment programs.[28] Massachusetts, for instance, has an internet-based system that has substantially lowered costs.

Employers' experiences with work sharing in the United States seem to be largely positive. One prominent survey found that nearly every employer which used work sharing in California, Florida, Kansas, New York and Washington in the 1990s was satisfied with the program and would likely use it again in the future.[29] While some of the surveyed employers indicated that the increased unemployment insurance tax rate was a significant drawback, the employers overwhelmingly identified higher profits or increased productivity as a result of the lower turnover. A similarly significant number indicated that they would have laid off employees, or laid off more employees, if they had not participated in the work sharing program.

Employers' Experience with Specific Aspects of Work Sharing Program

Employer Experience	California	Florida	Kansas	New York	Washington
UI tax rate increased as a result of participation	56.5	84.1	34	64.8	55.7
UI tax increase was large	30.3	45.3	11.8	52.9	25.9
UI tax increase was a serious drawback	21.2	29.1	11.1	39.6	15.4
Firm would have laid off employees (or) laid off more employees if had not participated	77.2	89.6	94.4	95.9	88.8
Reduced turnover increased productivity or profits	87.5	83.5	92.9	92.1	87
Administrative tasks associated with program were burdensome	13.8	18.5	3.6	19.4	10.1
The program was too restrictive	3.2	7.6	1.9	15.3	5.1
Likely to use program over layoffs in the future	96.7	83.3	98.2	92.9	96.7

Source: Berkeley Planning Associates. Evaluation of Short-Time Compensation Programs. 1997.

Similarly, employee responses were overwhelmingly positive. The majority of workers had a favorable reaction to their participation in work sharing, with less than five percent of workers opposing the program in every state except for Washington (where 7.6% opposed it). Nevertheless, participation rates remain low throughout the country.

Employer Reports of Employee Views of Participation

Employee Reaction	California	Florida	Kansas	New York	Washington
Highly favorable	37.6	24.4	55.6	53.7	42.4
Moderately favorable	40.9	56.4	37	27.4	39.1
Neutral	19.4	15.4	3.7	13.7	10.9
Moderately opposed	2.2	2.6	3.7	2.1	5.4
Highly opposed	0	1.3	0	3.2	2.2

Source: Berkeley Planning Associates. Evaluation of Short-Time Compensation Programs. 1997.

Lessons for an American Work Sharing Program

The evaluations of existing programs in Europe and the United States serve as important case studies for the creation of a national program in the United States. The Canadian case study, specifically, highlights the importance of allowing participation in short-term compensation programs to last the entirety of a crisis in order to effectively act as an automatic stabilizer during economic downturns. In addition, the United States could follow the example of the six countries which prohibit the dismissal of workers during the program period or within a specified period of time after its expiration. Alternatively, the United States could follow the example of the Netherlands, which addresses this problem by requiring companies to repay half of work sharing benefits paid to their employee if the worker is laid off in the three months following participation in the program.[30]

The experiences of other countries have shown that work sharing programs are not a panacea for unemployment during economic crises. While the program appears to effectively mitigate permanent job losses during a downturn, employees will not be able to maintain full pre-crisis wages and working hours during their participation. Work sharing also has a higher upfront cost than standard unemployment insurance, although most studies agree that the long-term benefits outweigh the initial costs.

Even so, work sharing schemes hold important benefits for workers, employers, and the broader economy by allowing employees to maintain their connection to the workforce, helping employers retain valued employees and avoid the cost of retraining new workers after the recession, and encouraging market-level stability in the level of consumption. Studies show that work sharing programs are most effective when they exist before the onset of crisis, allowing them to act as automatic stabilizers until pre-recession levels of economic activity can resume. While it might be too late for the United States to fully benefit from such a program in the current unemployment crisis, the creation of a national program would act as a beneficial automatic stabilizer during future economic downturns.

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MAIN OFFICE
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

CALIFORNIA OFFICE
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189

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WWW.NEWAMERICA.NET